

OPEN LETTER TO THE PEOPLE OF NORTH DAKOTA

FROM SENATOR KENT CONRAD

Dear Fellow North Dakotans:

As I traveled to all 53 counties of North Dakota this year, many people asked me, “Why would someone who has always opposed deficits vote for TARP and for the stimulus plan?” Here’s why:

Our Economy Was On The Brink Of Collapse

It is important to remember the disastrous economic and financial situation we faced in the fall of 2008, in the closing months of the Bush Administration. At the height of the crisis, I was called to an emergency meeting in the Capitol with the Secretary of the Treasury Henry Paulson, Chairman of the Federal Reserve Ben Bernanke, and the Democratic and Republican leaders of Congress. The Treasury Secretary and the Fed Chairman told us they were taking over AIG, the world’s largest insurance company, the next morning. They were not there to seek our approval. They were there to tell us they had made the decision, and that if they did not do it, we would experience a financial collapse within days.

In the weeks that followed, I was asked to join the group negotiating the rescue of the financial system. This effort led to the creation of the Troubled Asset Relief Program, known as TARP. In an all-night meeting during the last weekend of negotiations, Secretary Paulson repeatedly reported on messages he was receiving about major financial institutions failing around the world – in Germany, in England, in Ireland.

At one point, we were told that if we did not reach agreement by 5 p.m. Sunday evening, the Asian markets would open and they would collapse, and our own markets would open Monday morning and they would collapse. I suppose I could have refused to support the effort to prevent that from happening, but that would have been reckless and completely irresponsible.

It is easy to forget just how perilous things were at the time. Banks were failing, the housing market was crashing, and the stock market was losing vast sums of money. There was a clear threat the financial turmoil could spiral out of control. A headline in the Washington Post on September 16, 2008 read: “Stocks Plunge as Crisis Intensifies; AIG at Risk, \$700 Billion In Shareholder Value Vanishes.”

The decision to create TARP was never about saving big banks and financial markets. It was about saving the American people from millions of additional job losses and untold economic suffering that would have resulted from the collapse of those banks. Given our interlinked economy, these failures would have created a domino effect that would have wiped out many small businesses and caused great damage throughout our communities.

President George W. Bush Explains Why He Created TARP

In a speech last week, former President George W. Bush summed up his decision to create TARP as follows: “Depression, no depression....It wasn’t that hard for me... I made the decision to use your money to prevent the collapse from happening.”



Now we can look back and determine whether or not TARP was effective. I believe the record shows that what was done worked and worked quite well. The fact is the financial system has largely stabilized, markets have begun to recover, and our economy did not collapse. USA Today reached the same conclusion in a recent editorial titled: “Maybe You Haven’t Heard, But the Bailouts Worked.”

And we now know that TARP will cost much less than originally expected. According to the Treasury Department, about a third of the \$700 billion originally authorized for TARP will never be used and most of the rest will be paid back. Taxpayers have already been paid back more than \$200 billion and are expected to make a \$16 billion profit on the portion of TARP investments that went to banks.

Why We Needed The Recovery Act

But even though TARP was critical to stabilizing the financial sector, it was not enough, on its own, to put the economy back on track. With the private-sector reeling, the only entity capable of providing lift to the economy was the federal government. And so the Obama Administration produced a stimulus plan known as the Recovery Act. It provided \$787 billion of liquidity for the economy, including: tax relief for middle income taxpayers and small businesses; infrastructure investments; aid to states; and assistance for unemployed workers and struggling families.

Some now say this effort did not work. I respectfully disagree. The Recovery Act was a critical component of the overall federal response, which included TARP and other actions such as the Federal Reserve lowering interest rates

to near zero. The evidence of the effort’s success is clear. Even though unemployment is still higher than anyone would like, we have experienced a significant turnaround from where we were just a short time ago.

Here’s How Our Economy is Improving

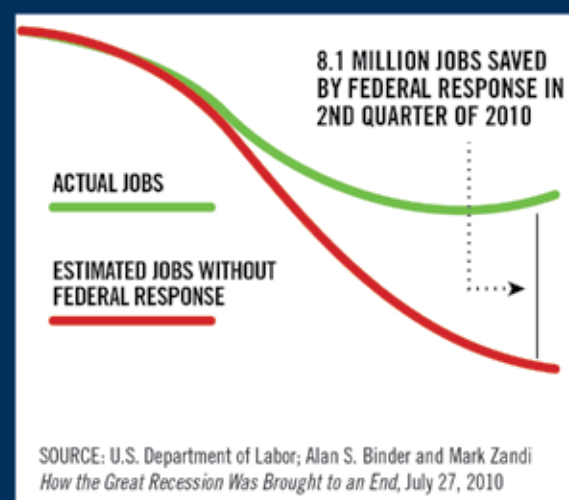
- Economic growth in the last three months of 2008 was a negative 6.8 percent. In the most recent three months, it was a positive 1.7 percent.
- In the first month of 2009, the economy lost more than 800,000 private-sector jobs. In the most recent month, the private-sector gained 64,000 jobs.
- And the stock market has begun to recover, with the Dow climbing from a low of about 6,500 in March of 2009 to about 11,000 today – a gain of nearly 70 percent.

OUR ECONOMY AT A GLANCE

Jobs Picture:

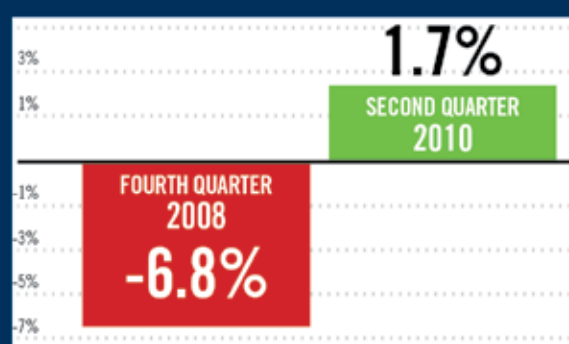
With and Without Federal Response
to Financial Crisis and Recession

(Millions of jobs, quarterly data, total nonfarm payrolls)



Economic Performance

(Percent growth of real GDP, annual rate)



Stock Market Record

(Stock price averages: Dow Jones 30 Industrial, NYSE; Daily data)



Two of the nation’s most distinguished economists, Alan Blinder, former Vice Chairman of the Federal Reserve, and Mark Zandi, the top economist at Moody’s and a former advisor to Senator John McCain, concluded that the combination of federal actions, including TARP and the Recovery Act, avoided what would have been “Great Depression 2.0.” They estimated that without these federal actions, unemployment today would be about 15 percent and the economy would have about 8 million fewer jobs.

But now that we have averted a meltdown we must pivot and get our deficit and debt under control. That is why I proposed a fiscal commission to get our nation back on track. That commission is now at work. There are eighteen members and I serve on it. We will report our results by December 1st. If fourteen of eighteen of us can agree on a plan, it will be voted on in Congress by the end of the year. I am hopeful that we can reach agreement and put our country back on a sound course for the future.

Sincerely,

KENT CONRAD
United States Senator